

INTERNATIONAL MERCANTILE MARINE

To Holders of United States Mortgage & Trust Company Certificates of Deposit for Common Stock of International Mercantile Marine Company:

Your Committee has refrained from giving any statistical information as to the affairs of the Marine Company, until its accuracy had been established by Messrs. Coverdale, Colpitts & Co., as Consulting Engineers, and Messrs. Barrow, Wade, Guthrie & Co., as Accountants. This examination has just been completed. In view of the press reports of the Plan intended to be proposed by the Preferred Stockholders' Committee, but disapproved by your Committee, it is deemed proper to present to you at this time a summary of the more important facts, together with a statement of the differences between the two Committees.

Capitalization and Assets of the Marine Company:

The Marine Company has the following capitalization:

Bonds—two issues, 4½% and 5%.....	\$70,226,000
Preferred Stock—par value.....	51,725,730
(accumulated dividends of 78%).....	
Common Stock—par value.....	49,872,110

Annual interest on bonds \$3,248,330. Interest in arrears on bonds to July 1, 1916, amounts to \$7,014,876.50, compound interest excluded.

The following are the Company's assets:

	Tonnage Dec. 31, 1914.
White Star Line	In service.....733,911 tons
Dominion Line	Under construction, approx. ½ paid for.....222,234 "
(1) Atlantic Transport Lines	
American Line	
Red Star Line	

The Company owns these lines either directly or through ownership of 100% of the capital stock of the proprietary companies. These properties are usually referred to as constituting the International Mercantile Marine Co. proper.

	Tonnage Dec. 31, 1914.
(2) Leyland Line	In service.....288,931 tons
	Under construction.....15,425 "

The Marine Co. owns approximately 98½% of the Common Stock of the Leyland Line and all of the Preferred Stock except 2827,330 or approximately \$4,000,000, the latter being held by the public. The Marine Co. therefore practically owns the entire Leyland Line subject to the claim of about \$4,000,000 of Preferred Stock in the hands of the public. Its tonnage is approximately equal to 32% of the total tonnage of the Marine Company, including subsidiaries. The condition of the Leyland Line has gradually improved, the improvement being most marked between 1910 and 1913 and during the last two years of said four-year period its net earnings, exclusive of depreciation, exceeded \$2,300,000 per year. Prior to 1912 the Leyland Line devoted substantially all of its earnings to the improvement of its property and between Jan. 1, 1911, and Dec. 31, 1914, fifteen ships with a tonnage of 85,980 tons, costing \$5,262,756, were paid for out of its earnings. Its debenture issue, originally \$2,425,000, has been paid. In 1915 the net earnings of the Leyland Line subject to the war tax were over \$13,500,000. For the current year it is earning at an increased rate.

The cost of this investment to the Marine Company with interest at 4½%, after deducting dividends received, was, as of Dec. 31, 1915, over \$18,900,000.

(3) Investments. The Marine Company either directly or through subsidiary companies has the following interest in the common stocks of other companies:

Holland-America Line	Tonnage:	Owned.....220,517 tons
25%	Under construction.....34,000 "	
Shaw-Savill & Albion Co. Ltd., Approx. 44%	Tonnage:	Owned.....78,488 tons
	Under construction.....16,250 "	
George Thompson Co., Ltd., Approx. 30%	Tonnage:	Owned.....41,819 tons
	Under construction (approx.).....8,000 "	

Condition of the Company prior to the Declaration of War, August, 1914:

The International Mercantile Marine Co. was formed in 1902. The impression prevails that the assets and earnings of the Company had gradually decreased until the outbreak of the present war, and that the entire value of both classes of its stock was created by the war. This is an error. The condition of the Company both with respect to assets and gross and net earnings gradually improved from the date of its formation to Dec. 31, 1913, the end of the year preceding the war. This improvement is shown by the following comparisons:

	1903	1913
Gross Voyage Earnings, I. M. M. Co.....	\$29,677,756	\$47,519,404

The year 1913 instead of 1914 is used as it is the last year in which the earnings are not affected by the war.

	Dec. 31, 1902	Dec. 31, 1914
Tonnage:		
I. M. M. Co.—In service.....	603,274 tons	733,911 tons
Under construction about one-half paid for.....	70,000 "	222,234 "
Leyland Line—In service.....	259,566 "	288,931 "
Under construction.....	15,425 "	

Total.....932,840 tons 1,260,501 tons

*NOTE: Tonnage under construction 1902 is approximate; accurate statement not readily ascertainable; 1914 statement is official.

New Tonnage:

Between January 1, 1911, and December 31, 1914, the following amounts were spent for new tonnage, partly for replacements and partly for additions:

	Tonnage	Expenditures
I. M. M. Co.....	89,628	\$12,988,270
Leyland Line.....	85,980	5,262,756
		Payments on Acct.
Under construction Dec. 31, 1914		
I. M. M. Co.....	222,234	\$12,841,797
Leyland Line.....	15,425	816,261

Total new tonnage in service and under construction.....\$413,267 \$31,909,084

The new tonnage was equal to about one-half of the entire fleet at the formation of the Company.

Investments:

The stock of the Holland-America Line, the Shaw-Savill & Albion Co., Ltd., and the George Thompson Co., Ltd., was purchased after December 31, 1904, the date of the first published Balance Sheet.

Liabilities:

The liabilities including the bonded or funded debt and net current liabilities of the Marine Co. and its subsidiaries were not increased; on the contrary these liabilities between December 31, 1904, the date of the first published Balance Sheet, and December 31, 1914, the end of the period, actually showed a decrease of \$11,902,24.

Net Earnings prior to War Period:

The net earnings of the International Mercantile Marine Co. and the Leyland Line before deducting bond interest and before allowance for depreciation, but after providing for interest on underlying bonds of subsidiary companies and the proportion of preferred stock dividends by Fredk. Leyland Co., Ltd., due to the public, were as follows:

Average, 1903 to 1909—7 years.....	\$4,893,989 annually
1910-11-12-13—4 years.....	9,414,349 "

During the early part of 1914 this Company suffered in common with all business from the then current business depression, but beginning with August, 1914, its earnings rapidly increased. This increase has continued until the present time.

Net earnings stated in this as well as in other paragraphs, are the surplus earnings available for interest, dividends, reduction of debt, etc., but before allowance for depreciation. All expenditures for repairs and main-

tenance, both ordinary and extraordinary are deducted and charged to income. The depreciation item is intended to represent the decreased value of the ships and is really a fund for the purchase of new ships. As it is a reserve and not an actual expenditure and as the value of the ships during the past year has been increased, this is not deducted as an actual charge or payment. The depreciation charge adopted by the Company under normal conditions is 4% of cost. The war tax has not been deducted from any of the items except where stated.

War Earnings:

The net earnings of the International Mercantile Marine Co. and the Leyland Line from the commencement of the war, August 1, 1914, after deducting all charges and expenses except depreciation and war tax, have been as follows:

August 1, 1914, to December 31, 1914.....	\$6,431,650
January 1, 1915, to December 31, 1915.....	41,256,036
January, February and March, 1916, approx.....	13,500,000

Deducting war tax not yet paid and estimated to April 1, 1916.....17,000,000

The balance being net earnings since the commencement of the war.....\$44,187,686

While all of these earnings cannot be distributed as income and as a considerable portion must be applied to the reduction of debt and other capital purposes, nevertheless, they represent actual additions to the value of the assets of the Marine Company reflected in the value of its securities.

The foregoing earnings do not include the earnings from the Holland-America Line, Shaw-Savill & Albion Co., Ltd., and George Thompson Co., Ltd., except to the extent that they have been heretofore distributed in dividends, the exact amount of which earnings cannot be ascertained. These companies have pursued the policy of declaring but small dividends and devoting the rest of their profits to the increase of their assets. They pursued the same policy for 1915. These undistributed earnings add value to the stock held by the Marine Company as an investment.

Cash Position of the Company April 1, 1916:

Cash in the hands of Receiver, the Mortgage Trustees and subsidiary companies of I. M. M. Co., including the Leyland Line on February 29, 1916.....	\$45,794,000
Add March receipts, taken as equal to February.....	4,500,000
Cash April 1, 1916.....	\$50,294,000

This is subject to deduction of war tax as stated.

The Receiver and constituent companies have since August 1, 1914, to date, invested out of current income over \$10,000,000 in the purchase of new ships, payment of underlying obligations of constituent companies, and other capital purposes.

Income of Company on restoration of normal conditions after war:

A forecast of future earnings always involves some uncertainty. The controversy with respect to the surplus earnings in excess of the bond interest, or the balance of the equity in the property and the division of the stock, is solely between the Preferred and Common Stockholders' Committees, and we are prepared to accept the Preferred Stockholders' Committee's estimates of these earnings on return to normal conditions.

The Preferred Stockholders' Committee's estimate is evidently based on rates, tonnage and earnings for the pre-war year 1913. To the reported earnings for that year, they have added increased earnings due to the new tonnage now under construction and not then in service, and also the average earnings of the Leyland Line for 1912 and 1913, not actually distributed in those years, but invested in new tonnage, together with dividends on the shares of the three companies held by the Marine Company as an investment.

We quote the estimate made on this basis:

"Net earnings.....	\$16,250,000
Depreciation to be invested in new ships to replace obsolete or lost ships.....	5,000,000
Leaving a divisible income of.....	\$11,250,000
Interest 5% on \$17,632,000.....	\$ 881,600
Interest 4½% on 52,594,000.....	2,366,730
Net surplus after depreciation and interest.....	\$ 8,001,670"

From this there should be deducted interest on surplus cash assumed to remain in the Treasury of.....\$ 750,000

Leaving a balance of.....\$ 7,251,670

If the Preferred dividend of 6% is deducted from the above amount.....3,103,543

It leaves a balance for the Common Stock of.....\$ 4,148,127

It will be noted that the foregoing does not make any provision for the accumulated dividend in arrears on the Preferred Stock. On the other hand, it takes substantially no account of the surplus war earnings which are more than sufficient in amount, whether distributed or not, to offset the cash or commuted value of the accrued dividend.

The foregoing division of income, therefore, correctly represents the relative interests of the two classes of stock in the earnings of the Company on the basis of normal earnings and conditions; with the amount of accumulated dividends more than offset by the war earnings not taken into account in the foregoing calculation.

Value of Assets of the Company for purposes of Reorganization:

Cash after deducting all expenses and war taxes, as of April 1, 1916 (approximately).....	\$ 35,000,000
Investments—Holland-America Line, Shaw-Savill & Albion Co., Ltd., and George Thompson Co., Ltd.....	11,000,000
Cash paid on account of steamers under construction December 31, 1915.....	5,925,000
Britannic (cost).....	8,475,000
Olympic.....	7,250,000
Pacific Mail steamers purchased by Receiver (cost).....	5,000,000
Real estate, office buildings, etc., book value.....	2,000,000

Leyland Line, cash cost with interest to date.....\$ 74,650,000

Balance, representing all the remaining assets of White Star Line, Dominion Line, Atlantic Transport Line, American Line and Red Star Line, including entire fleet as of December 31, 1914 [except Britannic and Olympic] (69 ships) all other physical assets, and all current assets after deducting Oceanic Debentures and all current liabilities of the Marine Co. and its subsidiary companies.....48,000,000

Net income, after deducting all charges, including war taxes (estimated), for three months, April 1 to July 1, 1916, at \$3,000,000 per month.....9,000,000

\$150,550,000

Inasmuch as no reorganization can be completed by the actual issue of securities before July 1, 1916, and as the entire tonnage of the Company is booked until after that date, we have added to the foregoing values the net income (after deducting war taxes) at the present rate, from April 1 to July 1, 1916, or \$9,000,000.

The value of the assets, including cash as of April 1, 1916, of \$141,550,000, is substantially equal to the value made by Mr. P. A. S. Franklin, Receiver. His valuation was \$129,000,000 as of December 31, 1915. He has not classified the assets or made the valuation of the items as above stated, but has valued the property as a whole as at present constituted and on the basis of being operated as before the war. If the earnings for the succeeding three months to April 1, 1916, after all deductions, including war tax are added, it would make \$138,000,000. Taking into account the earnings from January 1 to April 1, 1916, the aggregate of his valuation, as stated, is substantially the same as above.

The war tax is levied on the British but not on the American Companies and as to the British Companies it applies only to the excess over the pre-war profits. Allowance has been made not only for the present war tax of 50% but for the increase to 60% recently recommended, as well as the recommended increase in the normal British Income Tax. The allowance, though estimated, is deemed to be ample; any possible error in the estimate or in the method of calculation should not reduce the net earnings to the extent of more than \$500,000 per month, leaving \$2,500,000 instead of \$3,000,000 net earnings per month as above set forth.

Differences between the views of the two Committees with respect to the various proposed plans:

These arise out of the following considerations:

Assets at above valuation April 1, 1916.....	\$141,550,000
Income, April 1 to July 1, 1916.....	9,000,000
	\$150,550,000

Capital Liabilities:	
Bonds, 4½% and 5%.....	\$ 70,226,000
Interest to July 1, 1916.....	7,014,876
Preferred Stock.....	51,725,730
Warrants for accumulated dividend.....	*19,655,994
	\$148,622,590

*NOTE: The amount of warrants for the accumulated dividends is the amount conditionally fixed in the Preferred Stockholders' Plan; the present or commuted value of the accrued dividend does not, in our opinion, exceed this amount.

The position of the Common Stockholders' Committee is that in the foregoing valuation a large portion of the assets have been included at a greatly depreciated value and many elements of value wholly disregarded. This surplus or equity belongs to the Common Stock. The position is based on the following considerations:

(1) That in the valuation of \$141,550,000 the entire fleet of the Marine Co. and of the Leyland Line has been taken at a depreciated value far below either cost or actual present value. This fleet, as of December 31, 1915, had a tonnage of over 1,105,000 tons. In the aggregate value of \$141,550,000 this fleet is included at its depreciated value; that is, cost less depreciation. The depreciation is assumed to be 4% annually, but inasmuch as it was not charged by the Company every year, the total is slightly less; but substantially, however, the fleet is included at the depreciated book value.

For the very large increase in the value of tonnage due to increased cost of construction as well as the increase in market values, no allowance whatever has been made in the foregoing valuation, so that the excess of the actual value of 1,105,000 tons, over the value taken belongs to the Common Stock.

The extent of the difference between the depreciated and actual values may be illustrated by taking the twenty oldest boats in actual service. These cost originally \$23,102,000; their depreciated value on December 31, 1914, taking cost less 4% annually for the entire period, would be \$4,779,000. In 1915 these same ships alone earned more than \$7,000,000, subject to war tax.

The difference between the actual and depreciated value is striking in the case of the older ships; but more significant when applied to the whole fleet; the net earnings of all the ships, after deducting war tax, from the beginning of the war to April 1, 1916, being more than 70% of the price at which such fleet would be included in the above valuation.

(2) No allowance in the foregoing valuation is made for the large current earnings of the Company. Based on the average for the last six months, these earnings, after deducting all charges, including war tax, are approximately \$5,000,000 a month, or at the rate of \$36,000,000 per year. Deducting interest on the entire bonded debt, together with the current dividend on the Preferred Stock, leaves a balance in excess of \$29,000,000 a year. The continuance of such earnings is necessarily uncertain, but the prospects for their continuance for the next year are quite as favorable as the prospects for the past year's earnings of \$30,000,000 net, were a year ago.

(3) The valuation also makes no allowance for any increase over the pre-war earnings after the termination of the war. We are advised that the shortage of tonnage due to non-building during the war period as well as to the destruction of ships, is estimated to exceed 20% of the world's tonnage, and it is reasonable to expect an increase in rates over pre-war rates for a considerable period after the termination of the war. An increase of 20% over the rates prevailing during 1913, assuming that only one-half of the increase is saved for net, would add over \$6,000,000 of net earnings per year to the normal profits.

The allowance to the Common Stockholders by the proposed Plan is stated to be \$12,500,000 of new stock. The acceptance of this Plan by the Common Stockholders is, therefore, substantially equivalent to a sale by the Common Stockholders to the Preferred Stockholders of their interest in

(a) the fleet of substantially 1,105,000 tons at a price which wholly disregards the increase in the value of tonnage, and at much less than its actual or market value;

(b) war earnings which for more than six months have been averaging \$3,000,000 a month, or about \$36,000,000 per year after all deductions, including war tax;

(c) prospective post-war earnings expected to be considerably in excess of the normal earnings for a number of years.

The whole consideration proposed to the Common Stockholders for this interest is \$12,500,000 in new stock which would have a probable market value about equal to the three current months' net earnings of the Company after deducting war tax; or a market value less than the net earnings actually realized between the time the former plan was presented in December, 1915, and this date.

The acceptance of such a proposition cannot be considered.

We have not stated the amount of the excess of the market value over the depreciated value of the fleet, nor the amount of the prospective war earnings from this date to the conclusion of the war, nor the amount of the prospective increased earnings for the period immediately following the termination of the war. We omitted this deliberately as the figures are so large as to be apt to mislead, and we suggest caution in any attempt to ascertain or use the figures we have refrained from stating. Without, therefore, undertaking to state the figures, and making all possible allowances for the necessary uncertainty of any estimates, it must be evident that the real equity of the Common Stockholders, based on the actual or market value of the fleet and on the current and prospective earnings, is far too large—its position far too strong—to justify an adjustment on any such basis as has been proposed.

We have sought in this statement only to summarize the important facts. We have not dealt with the much discussed question of the validity of the default or prosecution of the foreclosure. Whether the default be valid or not, the accumulation of earnings and the improvement in the condition of the property makes the oft-threatened extinguishment of the Common Stock impossible.

It is evident that the Company can readily pay its debts, partly in cash and partly by refunding. Foreclosure proceedings cannot be used as a means of enforcing the collection of the accumulated dividend on the Preferred Stock. It is wise to attempt to reach an adjustment between the two classes of stockholders, but in view of the facts stated, the Common Stockholders are not justified in surrendering their rights in the assets and future of the Company, save on terms that fully compensate them. If no agreement is possible, the debts should be paid, the property restored and the controversy between the two classes of stockholders left for settlement in accordance with their actual rights or by future agreement. This has been the position consistently taken by the undersigned Committee and will be maintained.

Dated, New York, April 8, 1916.

JOHN W. PLATTEN, Chairman,
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